

**REPORT OF THE AUDIT OF THE  
MCCRACKEN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MCCRACKEN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts has completed the McCracken County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees for the year ended December 31, 2007 were \$1,585,216. Revenues for the year totaled \$1,694,663, and expenditures were \$109,447.

#### **Report Comment:**

- Internal Controls Over Financial Reporting Should Be Strengthened

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive  
The Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of McCracken County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2008 on our consideration of the McCracken County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Van Newberry, McCracken County Judge/Executive  
The Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Internal Controls Over Financial Reporting Should Be Strengthened

This report is intended solely for the information and use of the Sheriff and Fiscal Court of McCracken County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

July 16, 2008



MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	138,823
State Grants		1,407
State Fees For Services:		
Finance and Administration Cabinet	\$	48,304
Mental Health Transport		16,807
Sheriff Security Service		88,615
		153,726
Circuit Court Clerk:		
Fines and Fees Collected		32,910
Court Ordered Payments		150
		33,060
Fiscal Court		86,535
County Clerk - Delinquent Taxes		4,931
Commission On Taxes Collected		920,299
Fees Collected For Services:		
Fingerprinting and Photos		341
Auto Inspections		43,780
Accident and Police Reports		3,741
Serving Papers		139,033
Carrying Concealed Deadly Weapon Permits		7,350
Arrest Fees		12,451
Miscellaneous		9,288
		215,984
Other:		
Executions And Sheriff Sales		2,182
2nd Notice/Sheriff Fees - Taxes		98,030
		100,212
Interest Earned		39,686
Total Revenues		1,694,663

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY  
 JON HAYDEN, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2007  
 (Continued)

Expenditures

Operating Expenditures:

Materials and Supplies-

Office Materials and Supplies \$ 262

Other Charges-

Executions And Sheriff Sales 2,181

Refunds 50

Civil Papers 280

Jury Expenses 398

Carrying Concealed Deadly Weapon Permits 2,130

Service Charges 882

Transporting Fugitives 14,264

Miscellaneous 1,236

Grant Expenditures-

Deputy Overtime 1,407

Total Expenditures \$ 23,090

Net Revenues 1,671,573

Less: Statutory Maximum 84,664

Training Incentive Benefit 1,693 86,357

Excess Fees Due County for 2007 1,585,216

Payments to Fiscal Court - Monthly 1,547,279

Balance Due Fiscal Court at Completion of Audit \$ 37,937

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

McCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The McCracken County Fiscal Court approved a fee pooling system for the McCracken County Sheriff. Under the fee pooling system revenues net of direct expenses of the Sheriff's office are paid to the McCracken County Treasurer each month. The county in turn pays almost all of the operating expenses of the McCracken County Sheriff's office.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The McCracken County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

McCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McCracken County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Forfeiture Account

The McCracken County Sheriff maintains a Drug Forfeiture Fund, as set forth by KRS 218A.435. The account is funded by court-ordered forfeitures of money or funds received from the sale of forfeited assets, interest received on deposits of forfeiture funds, as well as certain court-ordered contributions. The funds are to be used for various law-enforcement operations, equipment, and education. As of January 1, 2007, the Drug Fund had a balance of \$10,112. During the year, receipts from forfeitures, contributions, and interest totaled \$66,570, and disbursements of \$19,943 were made for law-enforcement equipment and support. A balance of \$56,739 remained in the drug fund at December 31, 2007.

Note 5. Federal Drug Fund

The McCracken County Sheriff maintains a Federal Drug Fund for its federal equitable sharing program. The account is funded by "federally forfeited cash, property proceeds, and any interest earned thereon, which are equitably shared with participating law enforcement agencies. The funds shall be used for law enforcement purposes in accordance with the statutes and guidelines that govern equitable sharing." As of January 1, 2007, the fund had a balance of \$24,926. During the year, receipts totaled \$11,749, and \$14,965 were disbursed for law enforcement activities. The fund had a balance of \$21,710 at December 31, 2007.

Note 6. Grant

The McCracken County Sheriff received a law enforcement service fee grant from the Kentucky Justice and Public Safety Cabinet during 2007 in the amount of \$1,407. Grant funds were used to fund deputy salaries for overtime incurred for extended law enforcement procedures. All grant proceeds were expended during the year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive  
The Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCracken County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated July 16, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- Internal Controls Over Financial Reporting Should Be Strengthened



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The McCracken County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCracken County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 16, 2008

COMMENT AND RECOMMENDATION



MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

Internal Controls Over Financial Reporting Should Be Strengthened

Deficiencies exist in the Sheriff's system of internal controls that have allowed misstatements to the financial statement to go undetected and unresolved until disclosed by the audit. Daily checkouts, which detail the summary totals of batched daily receipts, are not sufficiently reviewed for accuracy. Without proper review, receipts can be erroneously classified without detection and carried forward to the financial statement. Also, the bookkeeper, who records daily receipts and disbursements to the financial ledgers, also prepares the monthly bank reconciliation. The bank reconciliation is an important control procedure for detecting misstatements in the financial ledgers, and should be prepared by an employee independent of the recording process in order for this control to function effectively. To strengthen the Sheriff's internal controls over financial reporting, we recommend the following improvements be implemented:

- The daily checkout should be reviewed by an employee independent of the preparer and compared to batched daily receipts for accuracy.
- A deputy, independent of the bookkeeping function, should perform the monthly bank reconciliation, reconciling the receipts and disbursements to the receipts and disbursements ledgers prepared by the bookkeeper. Any discrepancies should be investigated and resolved by the Sheriff.

*Sheriff's Response:*

*Bookkeeper has performed these duties in the same manner for the past 10 years, but due to above recommendations, the segregation of duties dealing with this issue will be strengthened.*

